

VZCZCXRO2367  
RR RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA  
RUEHLN RUEHLZ RUEHROV RUEHSR RUEHVK RUEHYG  
DE RUEHVI #3602/01 3561021  
ZNR UUUUU ZZH  
R 221021Z DEC 06  
FM AMEMBASSY VIENNA  
TO RUEHC/SECSTATE WASHDC 5838  
INFO RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/USDOC WASHDC  
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 03 VIENNA 003602

SIPDIS

SIPDIS

PASS TREASURY FOR OASIA/ICB/VIMAL ATUKORALA  
TREASURY ALSO FOR OCC/EILEEN SIEGEL  
TREASURY ALSO PASS FEDERAL RESERVE  
USDOC PASS TO OITA  
USDOC FOR 4212/MAC/EUR/OWE/PDACHER

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ECIN](#) [EFIN](#) [ETRD](#) [EUN](#) [AU](#)

SUBJECT: Austria's Raiffeisen - A Domestic and Regional Heavyweight

REFS: A) VIENNA 42 B) VIENNA 1190

#### Summary

11. The Raiffeisen Association is a commercial heavyweight within Austria, with wide-ranging and diverse business holdings. Its business interests permeate Austria's economy, with impressive holdings in the banking, investment, insurance, dairy, media, and retail sectors. By virtue of its commercial activities in Central and Eastern Europe and Southeastern Europe (CEE/SEE), it is also an important regional player. A Raiffeisen subsidiary, Raiffeisen International, is among the five largest foreign banking groups in CEE/SEE. However, the activities of Raiffeisen in the region have occasionally been controversial, such as Raiffeisen Investment AG's role in the RosUkrEnergo joint venture in Ukraine. End Summary.

#### The Raiffeisen Sector - A Commercial Heavyweight

12. The Raiffeisen sector has its origins in the ideas of Friedrich Wilhelm Raiffeisen (1818-1888) to establish agricultural cooperatives. Some 130 years later, Raiffeisen is still important for agriculture, but it has expanded into a wide variety of sectors.

It is an important player in Austria's economy, with 2 million cooperative members, 50,000 employees and 4 million customers. There is often an interlocking relationship between the Raiffeisen companies through intra-Raiffeisen shareholdings and through mutual shareholdings in outside firms.

13. The Raiffeisen Group's umbrella organization is the Raiffeisen Association, which consists of a banking group, a warehouse and trading group, and a dairy group, as well as some 700 other cooperatives, shareholdings, and separate controlling organizations. The Association engages in lobbying, public relations and representation for Raiffeisen.

#### The Raiffeisen Banking Group (RBG) - Austria's Largest

14. The Raiffeisen Banking Group (RBG) operates the largest banking network in Austria. It has three layers: 570 autonomous local banks with 1,700 branches; above the local banks, there are eight regional Raiffeisen banks, which aside from regular banking business also perform clearing and service functions for the local banks within their area; and on top, the Raiffeisen Zentralbank (RZB), a universal bank, which also provides central services for the entire

RBG. The 570 local Raiffeisen banks are the shareholders of the eight regional banks, which together hold 88% in RZB. Other RZB shareholders include the Raiffeisen warehouse and trading company RWA, the UNIQA insurance company and four other Austrian banks. The RBG's 2005 balance was Euro 178 billion, equal to 25% of total Austrian bank assets.

¶15. RZB, Austria's third largest bank, operates a huge international network and, through its subsidiaries, is one of the main players in Central and Eastern Europe and Southeastern Europe (CEE/SEE). It has the strongest Asian presence of all Austrian banks and has finance and representative offices in Western Europe and the U.S. However, the most important part of RZB's international network is in CEE/SEE, where it operates via its subsidiary Raiffeisen International (RI). RZB holds a 70% share in RI, institutional investors 20% and private investors the remaining 10%. RI's CEE/SEE banking network comprises 16 subsidiary banks and numerous finance and leasing companies with 2,400 branches and 10 million customers in Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Kosovo, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. RI, among the five largest foreign banking groups in the region, is the number one foreign bank in Albania, Bosnia-Herzegovina and Serbia; number two in Ukraine; number three in Slovakia; number four in Croatia, and the fifth largest foreign bank in Bulgaria.

¶16. RZB's financial statement lists significant holdings in more than 70 companies, including:

- Centro Bank (100%), an issuing and M&A bank;
- Raiffeisen Investment AG (RIAG) (100%), the RBG's CEE investment and financial advisory company with subsidiaries and representative offices in CEE and Central Asia;
- Raiffeisen Leasing (100%);
- Raiffeisen Bausparkasse (37%), one of the four home loan societies in Austria with subsidiaries in Croatia, the Czech

VIENNA 00003602 002 OF 003

Republic, Romania and Slovakia;

- Raiffeisen Kapitalanlage (KAG) (50%), a specialist in issuing and managing investment funds;
- UNIQA insurance company (31.9%), Austria's leading insurance group, with subsidiaries in Germany, Italy, Switzerland, Liechtenstein, and CEE; and
- VISA credit card company (25%).

¶17. RZB also holds shares in approximately 50 companies that are not included in its consolidated financial statement, including Austrian Airlines (3.4%), Vienna Stock Exchange (6.1%), Budapest Stock Exchange (6.4%), Austrian National Bank (8.8%), Austrian Kontrollbank (9.8%), OEPAG pension fund (16.3%), and Volksbanken (Austria's fifth largest banking group, 5.7%).

#### Two Important Regional Raiffeisen Banks

-----

¶18. The two most important regional Raiffeisen banks, the Raiffeisenlandesbank (RLB) Upper Austria and the RLB Lower Austria-Vienna, are among the ten largest banks in Austria. Together with the 118 local Raiffeisen banks under its umbrella, RLB Upper Austria forms the largest local banking group in Austria. It holds shares in 145 banks and financial institutions and 249 non-financial sector entities, and has subsidiaries in Southern Germany and the Czech Republic. RLB Lower Austria-Vienna holds shares in banks in the Czech Republic, Hungary and Slovakia.

#### The Raiffeisen Warehouse and Trading Group

-----

¶19. The warehouse and trading group consists of Raiffeisen Ware Austria (RWA), a wholesale and services company, and 100 Raiffeisen warehouse cooperatives, for which RWA acts as umbrella. RWA shareholders are the Austrian RWA asset management company (50%) and the German BayWa group (50%). The group takes in over two-thirds of Austria's grain and crop harvest. RWA has shareholdings in more

than thirty Austrian companies.

#### The Raiffeisen Dairy Group

-----

¶10. The dairy group consists of 15 large dairies in Austria and an additional 150 dairy processing cooperatives. The group has a 99% market share for fresh milk, 95% for butter, 80% for yoghurt and 85% for hard cheese.

#### Other Raiffeisen Cooperatives and Shareholdings

-----

¶11. There are over 700 cooperatives, which are members of the Raiffeisen Association. The most important is the Raiffeisen Holding Lower Austria-Vienna (RHLAV). Its 198 cooperative members are the local Raiffeisen banks and warehouse and agricultural cooperatives of Lower Austria. RHLAV is the largest shareholder of RLB Lower Austria-Vienna (78.6%) and manages a network of 200 shareholdings in domestic and foreign companies in banking, industry, media, real estate and services. Indirectly, via RLB Lower Austria-Vienna, RHLAV also is a shareholder of RZB and RI. RHLAV has its most important shareholdings in dairies, Casinos Austria, milling and flour companies in Austria and neighboring countries, Europe's largest sugar company (Germany's Suedzucker), construction firms and media.

#### Raiffeisen's Interest in Media

-----

¶12. RHLAV, RZB and UNIQA together hold 50.1% in the KURIER newspaper, Austria's second largest daily. KURIER in turn holds shares in the NEWS publishing house and the KRONEHIT radio station. RHLAV holds shares in the SAT.1 radio company (33%), ORS broadcasting transmitter company (40%) and the Lower Austrian publishing house (20%), the largest print media enterprise in Lower Austria. The Raiffeisen sector also has shareholdings in the Upper Austrian publishing house and in several private local radio stations.

#### UNIQA Insurance

-----

VIENNA 00003602 003 OF 003

¶13. Another important component of Raiffeisen is UNIQA, Austria's leading insurance group with a 22% market share and subsidiaries in Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Germany, Hungary, Italy, Liechtenstein, Poland, Romania, Slovakia, Slovenia, Switzerland, and Ukraine. RZB holds 31.9% in UNIQA and Raiffeisen syndicates hold another 42%. UNIQA is in turn a shareholder in RZB, a major construction group and the KURIER newspaper.

#### Raiffeisen's Political Influence

-----

¶14. Raiffeisen has often exerted considerable political influence, albeit usually discretely behind the scenes. There is a strong connection to Austria's center-right People's Party (OVP). In the outgoing parliament, 7 of the OVP's 79 MPs had a Raiffeisen background. Particularly well-connected Raiffeisen and former Raiffeisen players include Christian Konrad, Chairman of the Raiffeisen Association; Walter Rothensteiner, CEO of RZB; and Karl Stoss, CEO of Casinos Austria and a former RZB Executive Board Member.

#### Negative Press Surrounds Raiffeisen's Ukrainian Venture

-----

¶15. The Raiffeisen banking sector's international activities have

occasionally raised negative attention. RosUkrEnergo (RUE), a joint venture between RZB subsidiary RIAG and Gazprom, facilitated the resolution of the January 2006 gas dispute between Russia and Ukraine (reftels). Negative press surrounded RIAG's role as a trustee for an unknown beneficial owner in RUE. In May 2006, the beneficial owners revealed their identities: Ukrainian businessmen Dimitry Firtash (90%) and Ivan Fursin (10%). Austrian and Ukrainian press reports linked Firtash to organized crime figures in the region. In summer 2006, RIAG withdrew from the RUE joint venture.

#### Trading With North Korea

¶16. In June 2006, the F.J. Elsner Trading Company, a 100% subsidiary of RZB and barter trade specialist for CEE, the Middle East, and Far East, participated in a trade mission to North Korea. Elsner reportedly signed a contract with Pyongyang's Railroad Ministry to deliver rails in exchange for cash (1/3) and scrap metal (2/3). Elsner will reportedly export the scrap metal to China. The deal could double Austrian exports to North Korea from the 2005 level of \$2.5 million.

MCCAW